



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2706
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WENDY L. WATANABE
ACTING AUDITOR-CONTROLLER

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
MARIA M. OMS

August 28, 2008

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Don Knabe
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM:

Wendy L. Watanabe
Acting Auditor-Controller

SUBJECT: **UPDATE ON W2 STATE WAGE REPORTING ERROR**

On April 2, 2008, I reported a payroll system error in the reporting of State wages for employees with medical and dental insurance coverage for their Registered Domestic Partners, see attached. The error affected State tax reporting for several years and we immediately issued corrected W2s to impacted employees for 2007 and corrected the system problem. We further analyzed years prior to 2007 and determined that this error caused under reported State wages for 74 employees and under withheld State income taxes by the County for tax years 2004 through 2006.

Although some employees may have one or more impacted tax years, the extent of the error is not large, \$21,555.79 in three tax years and spread among 74 employees. We also conclude that 56 employees (76%) had total taxes under withheld of \$300 or less for the three tax years. The chart below depicts ranges of under withheld State taxes and the number of impacted employees within each range:

State Taxes Under Withheld Total for 2004, 2005 and 2006	# of Employees Affected
\$1,001 to \$3,000	6
\$501 to \$1,000	8
\$301 to \$500	4
\$101 to \$300	17
Less than \$100	39
Total	74

Since our last report, we worked with County Counsel, outside tax attorneys, and the State Employment Development Department (EDD) to determine the proper course of action that would have a minimal negative impact on these employees and the County. The County, as an employer, has an independent obligation to ensure employee taxes are paid. We recently proposed to EDD that the County will pay \$21,555.79, the total amount of under withheld taxes for the three tax years, to the State to resolve this matter. We have also asked EDD to waive interest and penalties. Although this is discretionary, we believe we have demonstrated legitimate grounds for EDD to apply the waiver.

This payout does not require an action from your Board nor a County Claims' Board because the obligation is imposed by law. My office will, therefore, process the payment as an underpaid tax expense.

If you have any questions or other concerns, please contact me or your staff may contact Gregg Iverson at (213) 974-8401.

WLW:RAD:GI

Attachment

c: Chief Executive Office
County Counsel



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WENDY L. WATANABE
ACTING AUDITOR-CONTROLLER

April 2, 2008

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Don Knabe
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Wendy Watanabe*
Acting Auditor-Controller

SUBJECT: 2007 W-2 STATE WAGE REPORTING ERROR

In January 2008, the Auditor-Controller distributed 111,431 W-2s to County employees. Recently, the Auditor-Controller discovered a payroll system error in the 2007 State wage reporting that impacted 108 employees and will be issuing corrected W-2s (Form W-2Cs) to these employees. This error did not have an impact for purposes of federal taxable wages.

Under State law, the Auditor-Controller reduces an employee's reportable State wage by the portion of medical and dental insurance benefits that covers an employee's Registered Domestic Partner, i.e., if the medical insurance costs the employee \$200 to cover a Registered Domestic Partner, that \$200 is deducted from employee's State wages reported to the State Franchise Tax Board.

In error, the monthly reduction to State wages of these 108 employees was deducted twice, instead of once, and resulted in understated employees' State wages totaling \$304,108.06 for 2007. This underreporting does not incur any additional wages to be paid by the County; however, the corrected State wages may require each employee to file an amendment to their individual State Income Tax filing (if the employee's 2007 tax return had already been filed). We will be advising these employees to consult their tax advisors for proper action.

We are currently analyzing years prior to 2007 and are working with County Counsel and outside tax attorneys to determine if there is any further impact. We will keep your Board informed when we conclude the analysis.

If you have any questions or other concerns, please contact me, or your staff may contact Gregg Iverson at (213) 974-8401.

WLW:RAD:GI

c: William T Fujioka, Chief Executive Officer
Raymond G. Fortner, County Counsel

"To Enrich Lives Through Effective and Caring Service"